

Figure, Department of Defense seal

THE SECRETARY OF DEFENSE
WASHINGTON, D.C. 25301-1000

Date stamp, May 15, 1998

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
UNDER SECRETARIES OF DEFENSE
DIRECTOR, DEFENSE RESEARCH AND ENGINEERING
ASSISTANT SECRETARIES OF DEFENSE
GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE
INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE
DIRECTOR, OPERATIONAL TEST AND EVALUATION
ASSISTANTS TO THE SECRETARY OF DEFENSE
DIRECTOR, ADMINISTRATION AND MANAGEMENT
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Department of Defense Financial Business Practices Reform

The Department as a whole, and functional managers in particular, need better financial information to conduct their far-flung operations. For example the Department's managers need to be able to answer questions about: (1) the amounts owed to, or owed by, the Department, (2) amounts estimated to be required for future environmental cleanup efforts, (3) the cost of overhead or other infrastructure, as well as (4) other questions regarding the actual costs of specific activities after they have been performed. Unfortunately, this information often is hard to develop.

One reason for this difficulty is that our acquisition, logistical, medical, personnel, and other processes and systems designed to fulfill important management functions do not do a good job of capturing and reporting financial data to the Chief Financial Officer community. One consequence is that the Department's financial statements, a score card of how well the Department executes its fiduciary responsibilities, have not received a favorable audit opinion over the last several years. This is unacceptable.

Another reason is that the Department historically has managed by a "stove pipe" budget execution process. Military Departments develop weapons systems using research, development, test and evaluation funds; acquire weapons system with procurement funds; maintain weapons system with operation and maintenance (O&M) dollars; and operate weapons system utilizing O&M and military personnel funds. Since these costs are funded by different appropriations, often without any linkage between the appropriations, program managers must manually calculate or estimate actual costs using information from multiple systems. While the Department has done a credible job of estimating its resource needs and requirements and in executing and accounting for its budget authority, it does not do well in meeting current requirements to account for and report the total cost of its varied missions that span multiple appropriations.

This is a Department-wide management problem not just a financial management problem. For this reason, initiatives to improve the accuracy, timeliness and usefulness of financial information must be developed through the Defense Management Council. I have instructed the Under

Secretary of Defense (Comptroller) to oversee the Department's efforts to improve the manner in which financial information is captured and reported in all of the Department's systems--not just its financial systems. Further, I am directing that you provide the Under Secretary of Defense (Comptroller) your support to achieve one of the Administration's top priorities—a favorable audit opinion on financial statements.

To achieve more favorable opinions, a number of steps must be undertaken immediately. In particular, the acquisition, logistical, medical, and personnel processes and systems must be modified to encompass new functionalities and retooled to adequately capture and report necessary information. Only by achieving favorable audit opinions on our financial statements can the Department restore its credibility with the public and ensure that we, as senior managers, are effectively carrying out our fiduciary responsibilities.

Signature, Bill Cohen